



August 19, 2008

CalPERS

Single Administrator Workshop

Principles and Concepts Briefing

Chuck Hartwig, Los Angeles

What We Will Cover

- Single Administrator Concepts and Principles
 - Key Assumptions
 - Key Attributes
- The Case for Change – Why Consider a Single Administrator Approach?
- Major Advantages and Disadvantages
- The Range of Single Administrator Models
- Key Risks and Gains
- Suggested CalPERS Health Care Priorities
- Capturing Single Administrator Gains Through the RFP Process

Single Administrator Concepts & Principles

Key Assumptions

- There are many different concepts related to how a Single Administrator approach could be constructed and operate
- In order to focus the discussion to a manageable array of options, we have assumed:
 - The CalPERS staff plays an integral role in both managing and administering the health care program
 - A Single Administrator would be a health plan charged with developing and administering multiple plan options and/or networks, rather than an outsourcing partner charged with managing multiple health plans
 - There are viable health plans interested in delivering this approach
 - Plan options similar to those currently offered will be maintained
 - CalPERS is willing to consider self-insuring or partially self-insuring the HMO options

Single Administrator Concepts & Principles

Key Attributes

- The Single Administrator concept consolidates overall program development and administration for a set of varied health care plan options under a single entity
- Key responsibilities of a Single Administrator include the following:
 - Developing, contracting and/or managing a variety of provider networks
 - Claims administration and related customer service
 - Patient medical management
 - Data capture and reporting
 - Prescription drug management
 - Health & disease management
- The administrator itself may develop and provide all services, some of them may be sub-contracted, or CalPERS may carve out some services
- A comprehensive set of performance standards and financial guarantees are needed to ensure that the Single Administrator develops and operates the program in line with CalPERS priorities and requirements

The Case for Change

Why Consider a Single Administrator Approach?

- Status quo is likely to dramatically erode the affordability and sustainability of the CalPERS program in the coming years
- The current CalPERS program structure faces several major issues:
 - Provider market inequities expose it to significant provider pricing demands
 - Current networks are only partially customized to meet CalPERS' needs
 - Risk selection between plan options leads to rating imbalances
 - Achieving consistent performance across all plan options is very difficult
- The Single Administrator concept offers an opportunity to fundamentally change current provider market dynamics and improve the sustainability of the CalPERS program in the future

Single Administrator Concept

Major Advantages and Disadvantages

- Advantages may include:
 - Greater flexibility in design of provider networks
 - Single risk pool for pricing/rating
 - Consistent data across all plan options
 - Lower administrative costs
 - Ease of standardizing programs
 - Reduced cost and lower trends
- Disadvantages may include:
 - Potentially major provider network disruption
 - Increased risk for program financial results
 - Variation in Single Administrator capabilities (either across geographies, or across services)
 - Risk of poor longer-term performance (change would be painful)
 - Time and expense necessary for program development

The Range of Single Administrator Models

Summary

- Three basic Single Administrator models for CalPERS to include:
 - **Option #1: True Single Administrator**
 - One administrator manages all plan options
 - All plan options are self-insured (or partially self-insured)
 - **Option #2: Single Administrator + Kaiser (self-insured)**
 - The Single Administrator manages PPO and HMO plan options
 - Kaiser operates independently of the Single Administrator
 - To the extent feasible, all plan options are self-insured or partially self-insured
 - **Option #3: Single Administrator + Kaiser (fully insured)**
 - The Single Administrator manages PPO and HMO plan options
 - Kaiser operates independently of the Single Administrator
 - PPO remains self-insured and HMO plans are fully insured

The Range of Single Administrator Models

Model #1: True Single Administrator (managing all plans)

- Funding: All plan options self-insured (PPO & HMOs)
- Administration:
 - HMO: 1-3 varied options
 - PPO: multiple network options (similar to current)

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Consistent and simplified administration and customer service▪ Customizable design and network options▪ Consistent data capture and reporting▪ Potential to eliminate risk selection between plan options▪ Improved cashflow	<ul style="list-style-type: none">▪ Significant member disruption▪ Potential for negative financial impact from elimination of Kaiser and loss of HMO capitation

The Range of Single Administrator Models

Model #2: Single Administrator + Kaiser (model A)

- Funding A: PPO & HMO self-insured, Kaiser self or fully insured
- Administration:
 - HMO: 1-2 options
 - PPO: multiple options (similar to current)
 - Kaiser: Yes

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Some improvement in administrative consistency and simplicity▪ Customizable HMO network options▪ Enhanced consistency in data capture and reporting▪ Potential to reduce risk selection between plan options▪ Reduced member disruption (Kaiser)	<ul style="list-style-type: none">▪ Some member disruption (HMO and/or PPO network(s))▪ Potential for negative financial impact from loss of HMO capitation

The Range of Single Administrator Models

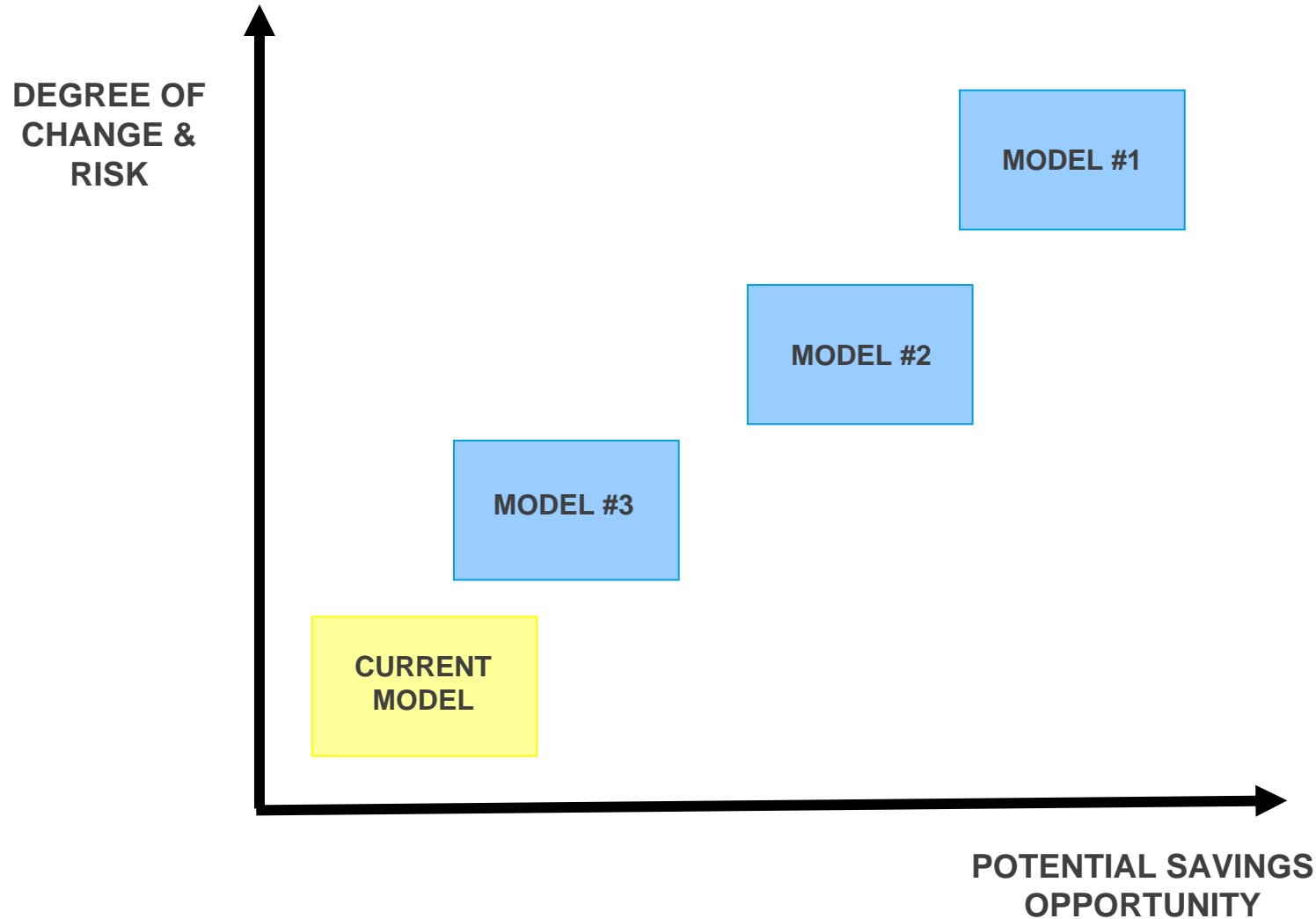
Model #3: Single Administrator + Kaiser (model B)

- Funding B: PPO self-insured, HMOs & Kaiser fully insured
- Administration:
 - HMO: 1-2 options
 - PPO: multiple options (similar to current)
 - Kaiser: Yes

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Some improvement in administrative consistency and simplicity▪ Potential to reduce risk selection between plan options▪ Reduced member disruption (Kaiser)	<ul style="list-style-type: none">▪ Some member disruption (HMO and/or PPO network(s))▪ Potentially, less aggressive pricing than self-insuring▪ Limited HMO network options▪ Less consistency in data capture and reporting

The Range of Single Administrator Models

Risk/Reward Trade-Off



Potential Risks and Gains

Degree Varies by Model

Risks	Gains
<ul style="list-style-type: none">▪ Member disruption▪ Increased financial responsibility▪ Program implementation▪ Provider network development▪ Loss of health plan competition▪ Limited negotiation ability (one vendor)▪ Administrator performance variability across program components▪ Long-term vendor performance	<ul style="list-style-type: none">▪ Administrative simplicity and savings▪ Standardized program administration▪ Greater data consistency▪ Ease of carve-out▪ Single risk pool▪ Program design flexibility▪ Reduced cost and lower trends

Suggested CalPERS Health Care Priorities

High-Level

We believe CalPERS should consider the following high-level priorities, in pursuing a future health care strategy:

- Provider competition
- Pay for performance
- Population health management
- Evidence-based design elements
- Health plan oversight and accountability

Suggested CalPERS Health Care Priorities

Tactical

In managing the health care options available through its program, CalPERS should consider the following tactical priorities:

- Seek a qualified health plan or plans with the following core competencies:
 - Network development and management
 - Claims administration and customer service
 - Medical management
 - Data capture and reporting
- Consider carving out health & disease management and prescription drug management, if appropriate/necessary
- Maintain Kaiser in the program but seek ways to better link it with other plan options (establish this expectation with both Kaiser and other health plans)
- Maintain a capitated HMO option within the health care program; but review self-funding for non-capitated services

Capturing Single Administrator Gains through the RFP Process

If CalPERS decides not to pursue the Single Administrator concept at this time, we may still be able to pursue many of its more attractive features through the upcoming health plan RFP process.

Through product development specifications, performance requirements and financial guarantees, you could take major steps in the following areas:

- Provider networks that promote competition and reward efficiency and quality
- Consistent, high-performing health and disease, and Rx management programs
- Consistent administrative processes and performance
- Improved financial results

Open Discussion & Questions



Notes & Questions

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN